

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EB-07 ISO-00 XMB-04 DOTE-00 /034 W

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FM AMEMBASSY TEHRAN

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USDOC WASHDC

INFO AMEMBASSY PARIS

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UNCLAS SECTION 1 OF 2 TEHRAN 5583

EMB PARIS FOR COMMERCAIL ATTACHE

EMB THE HAGUE FOR ECON SECTION -PARA 4

E.O. 11652: N/A

TAGS: BENC IR

SUBJ: MAJOR PROJECTS: QOM-BANDAR SHAHPOUR HIGHWAY

REF: (A) 76 TEHRAN 8507(NOTAL), (B) 76 TEHRAN 3977(NOTAL)

1. SUMMARY: REPS OF GOI MINISTRY OF ROADS AND TRANSPORTATION AND ZAGROS CONSTRUCTORS (MORRISON-KNUDSEN PACIFIC - 50 PERCENT AND CAFRARAN OF FRANCE - 50 PERCENT) SIGNED AN ESTIMATED \$711 MILLION CONTRACT JUNE 4 FOR THE MOBILIZATION, PROCUREMENT AND CONSTRUCTION PHASES FOR SECTIONS A AND C OF THE PROPOSED QOM-BANDAR SHAHPOUR SIX LANE, LIMITED ACCESS, TOLL HIGHWAY. APPROXIMATELY \$225 MILLION IS ALLOCATED TO MOBILIZATION/PROCUREMENT AND BALANCE TO CONSTRUCTION. FIRST OF FOUR PART CONTRACT (ENGINEERING SERVICES) WAS SIGNED IN JULY 1976 (REF A). OPPORTUNITIES FOR US SUPPLIERS OF EQUIPMENT EXIST (SEE PARA 10). END SUMMARY

2. SCOPE OF WORK: TURNKEY CONTRACT COVERS PROCUREMENT OF EQUIPMENT AND PLANTS, MOBILIZATION INCLUDING QUARRYING, CAMPSITE CONSTRUCTION, FEEDER ROADS, DELIVERY OF EQUIPMENT FROM
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PORT-OF-ENTRY, ERECTION OF JOBSITE FACILITIES, AND PERFORMANCE OF CONSTRUCTION UP TO STAGE OF UTILIZATION. SCHEDULED COMPLETION IS WITHIN FORTY (40) MONTHS OF CONTRACT SIGNING.

3. COMPOSITION OF CONSORTIUM: A CONSORTIUM OF MORRISON-KNUDSON PACIFIC, LTD. (MKP - A WHOLLY-OWNED SUBSIDIARY OF MORRISON-KNUDSON CO., INC. OF BOISE, IDAHO) AND

COFRARAN, S.A.R.L. OF PARIS (50 PERCENT EACH) OPERATE IN IRAN AS ZAGROS CONSTRUCTORS FOR THE PURPOSE OF NEGOTIATING AND FULFILLING THIS CONTRACT. COFRARAN IS ITSELF A CONSORTIUM OF SEVEN FRENCH FIRMS: G.T.M. (SOCIETE DES GRANDS TRAVAUX DE MARSEILL) - NANTERRE; ENTERPRISE COMPOUND BERNARD - PARIS; SPIE BATIGNOLLES (S.O.) S.A. (DEPARTMENT CITRA) - PUTEAUX; SOCIETE FRANCAISIE D'ENTERPRISES DE DRAGAGES ET DE TRAVAUX PUBLICS - PARIS; SOCIETE GENERALE D' ENTERPRISES -CHIVILLY LARUE; ENTERPRISE RAZEL FRERES - PARIS; ENTERPRISE JEAN LE FEBVRE -NEUILLY-SUR-SEINE. THE CONSORTIUM IS ORGANIZED ON 50 PERCENT-50 PERCENT BASIS WITH EACH PARTNER RESPONSIBLE FOR HALF EACH OF CONSTRUCTION OF SEGMENTS A AND C. PROCUREMENT HOWEVER IS DIVIDED 70 PERCENT M-K AND 30 PERCENT COFRARAN.

4. PROCUREMENT: ALLOCATION OF A LARGER SHARE OF THE PROCUREMENT PHASE TO M-K REFLECTS RECOGNITION OF SUPERIORITY IN TYPE AND QUALITY OF CERTAIN TYPES OF US HEAVY EQUIPMENT. COFRARAN 30 PERCENT SHARE OF PROCUREMENT IS MORE LIKELY TO BE FULFILLED BY PURCHASE OF MICHELIN TIRES AND CERTAIN TYPES OF FRENCH-MADE LIGHT AND MEDIUM GENERAL TRUCKS, ETC. UNDOUBTEDLY, THERE WILL BE PRESSURE TO PROCURE LOCALLY FROM HEPKO, GOVT-SPONSORED JOINT MANUFACTURING VENTURE (INTERNATIONAL HARVESTER) FOR CERTAIN TYPES OF HEAVY EQUIPMENT, ALTHOUGH REQUIREMENT TO DO SO IS NOT WRITTEN INTO THE CONTRACT. IN ANY CASE, CERTAIN TYPES UNCLASSIFIED

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OF NEEDS CANNOT BE MET BY LOCAL PRODUCERS OR BY CURRENT IMPORT STRUCTURE AND THEREFORE OPPORTUNITY DOES EXIST. M-K OFFICE SAYS THAT REQUIREMENTS ARE BEING DRAWN UP IN THE MONTH OF JUNE BY PROJECT MANAGER AND STAFF IN CONSULTATION WITH PARTNER AND MINISTRY AND THAT BILL OF MATERIALS WILL BE AVAILABLE AFTER JULY 1. FOR INTERNAL COMPANY REASONS, M-K OFFSHORE PROCUREMENT WILL BE DONE THROUGH M-K REP OFFICE IN HOLLAND, IN CONSULTATION WITH TEHRAN OFFICE. PROCUREMENT INQUIRIES MAY BE DIRECTED TO JACK LOGAN, MANAGER OF ENGINEERING AFTER HIS ARRIVAL TEHRAN EXPECTED O/A JULY 1. M-K IS SEEKING LARGER OFFICES BUT UNTIL FURTHER NOTICE, COMPANY IS LOCATED AT 100 VILLA AVENUE, 3RD FLOOR, TEHRAN (PO BOX 11-1591, TELEX 212610, TELEPHONE 836587, 836588). NOTE: MANY FIRMS HAVE ALREADY DISCUSSED POSSIBILITIES WITH M-K DURING LETTER-OF-INTENT PHASE.

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EMB THE HAGUE FOR ECON SECTION -PARA 4

5. FINANCING: AS DEPT AWARE, CONSIDERATION OF FINANCING TERMS WAS REASON CITED BY GOI FOR LONG DELAY IN SIGNING OF CONTRACT. AFTER LONG DIALOGUE INVOLVING EXIM AND OTHERS, IT NOW APPEAR THAT EXIM AND OTHER EXTERNAL US FINANCING IS NOT PART OF PACKAGE FOR FIRST PHASE DURING CURRENT IRANIAN YEAR. FIRST \$25-30 MILLION NEEDED TO INITIATE MOBILIZATION/PROCUREMENT WILL BE PAID FOR IN CASH FROM GOI RESERVES. ACCORDING TO M-K UNDERSTANDING, GOI THEN INTENDS TO FINANCE REMAINDER OF MOBILIZATION/PROCUREMENT PHASES IN NEXT IRANIAN YEAR (BEGINNING MARCH 21, 1978) THROUGH EURODOLLAR MARKET (MORGAN GUARANTY TRUST REPORTEDLY MAY PLAY ROLE). IDEA OF EXIM FINANCING HAS BEEN ABANDONED. FRENCH COUNTERPART OF EXIM, COFACE, WILL FINANCE 80 PERCENT OF FRENCH PROCUREMENT PORTION (\$48 MILLION). ARRANGEMENT HAS NOT BEEN ACCEPTED FINALLY BY GOI HOWEVER, BECAUSE COFACE WISHES THREE-YEAR GRACE PERIOD RETROACTIVE TO JULY 27, 1977 WHEN ENGINEERING CONTRACT SIGNED (REF A). RATES ARE REPORTEDLY SLIGHTLY BUT NOT SIGNIFICANTLY LOWER THAN PROPOSED EXIM RATE.

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6. STAFFING: PROJECT MANAGER IS JOHN BLANCHARD, BILINGUAL FRENCH/ENGLISH CANADIAN CITIZEN EMPLOYEE OF M-K WITH EXTENSIVE EXPERIENCE. HE EXPECTS TOTAL STAFF WILL APPROACH 6,000 EMPLOYEES OF WHICH APPROXIMATELY 450 WILL BE EXPATRIATES. MOST EXPATRIATES WILL IN ALL LIKELIHOOD BE THIRD-COUNTRY NATIONALS AS US TAX REFORM BILL OF 1976 MAKES IT DIFFICULT FOR M-K TO JUSTIFY EMPLOYING LARGE

NUMBERS OF MORE COSTLY US PERSONNEL.

7. RELATED MATTERS: HIGHWAY LINKING TEHRAN TO QOM AND TOLLROAD IS UNDER CONSTRUCTION BY AN IRANIAN CIVIL ENGINEERING/ CONSTRUCTION FIRM, SCHEDULED FOR COMPLETION WITHIN TWELVE MONTHS. SECTION B OF QOM-BANDAR SHAHPOUR HIGHWAY, COVERING APPROXIMATELY 130 KILOMETERS OF MOUNTAINOUS TERRAIN BETWEEN ARAK AND ANDIMESHK, WILL BE SUBJECT OF SEPARATE CONTRACT IN NEAR FUTURE. A FRENCH GROUP REPORTEDLY HAS LETTER OF INTENT FOR ENGINEERING PORTION ONLY.

8. MINISTRY CONSULTANT: MINISTRY OF ROADS SIGNED AN ESTIMATED \$47 MILLION CONTRACT WITH HOWARD, NEEDLES, TAMMEN, AND BERGENDOFF (HNTB) CONSULTING ENGINEERS- NEW YORK, RETAINING HNTB AS ITS AGENT TO MONITOR PROGRESS OF ALL CONTRACTS RELATED TO PROJECT. HNTB, AFTER APPROXIMATELY 15 MONTHS OF NEGOTIATION, SIGNED CONTRACT IN DECEMBER 1976 (FIRST PHASE APPROXIMATELY \$22 MILLION) AND OPENED AN OFFICE IN TEHRAN SHORTLY THEREAFTER.

9. COMMENT: THIS CONTRACT REPRESENTS FIRST STEP IN IMPLEMENTATION OF MASTERPLAN FOR NETWORK OF MAJOR HIGHWAYS. A VERY AMBITIOUS PROGRAM CALLING FOR INITIATION OF A NUMBER OF HIGHWAY PROJECTS WAS A FEATURE OF THE FIFTH DEVELOPMENT PLAN (MARCH 1973-MARCH 1978).
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HOWEVER, FOR A VARIETY OF REASONS CENTERING MAINLY ON COORDINATION AND FINANCING, ISSUANCE OF FIRM CONTRACTS HAS BEEN DELAYED. ANALYSIS OF DEVELOPMENT GOALS HAS MADE IT INCREASINGLY CLEAR, HOWEVER, THAT EXTENSIVE TRANSPORTATION INFRASTRUCTURE IS A NECESSARY PRECURSOR TO TIMELY PROSECUTION OF INDUSTRIAL SEGMENT OF DEVELOPMENT PLAN (E.G. LACK OF ADEQUATE INLAND TRANSPORTATION IS DELAYING FACTOR IN MOVEMENT OF MATERIAL AND EQUIPMENT) AND IS KEY TO SUCCESSFUL INSTITUTION OF INNOVATIVE SOCIAL PROGRAMS (E.G. A MAJOR STUMBLING BLOCK TO IMPLEMENTATION OF SCHOOL LUNCH PROGRAM WITHIN COST PARAMETERS IS INADEQUACY OF INTERNAL DISTRIBUTION SYSTEM). NOW THAT MAJOR PROBLEM OF FINANCING HAS EVIDENTLY BEEN SOLVED, IT IS HOPED THAT THIS PROJECT CAN MOVE AHEAD ON SCHEDULE AND PROVIDE AN EXAMPLE OF EFFICIENT, QUALITY CONSTRUCTION WHICH WILL SERVE AS A MODEL FOR FUTURE HIGHWAY CONTRACTS (FOR EXAMPLE, HIGHWAY FROM THE PORT OF BANDAR ABBAS NORTH TO SHIRAZ/ISFAHAN). WE NOTE, HOWEVER, THAT THE MOST DIFFICULT SEGMENT OF THE QOM-BANDAR SHAHPOUR HIGHWAY IS UNDOUBTEDLY SECTION B FOR WHICH THE CONTRACT HAS NOT YET BEEN AWARDED AND WITHOUT COMPLETION OF WHICH THE BENEFITS OF A UNIFIED

HIGHWAY TO AND THROUGH KHUZISTAN PROVINCE WILL NOT
BE ATTAINED.

10. NOTE ON PROCUREMENT: THE ABOVE IS SUPPLIED
AS BACKGROUND AND INFORMATION ON PROCUREMENT NEED ONLY
BE SUPPLIED ON DIRECT REQUEST AS M-K AND EMB BELIEVE THAT
BECAUSE OF LONG LETTER-OF-INTENT PHASE POTENTIAL
SUPPLIERS ARE WELL AWARE OF OPPORTUNITY AND HAVE ALREADY
MADE CONTACTS.
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Message Attributes

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